Legislation would reduce deficit by nearly $13 billion

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WASHINGTON — U.S. Representative John Carney today introduced the Big Oil Welfare Repeal Act to eliminate billions of dollars in unnecessary subsidies for big oil companies and reduce the deficit by $12.8 billion. While American businesses and consumers are tightening their belts, hugely profitable multi-national oil and gas companies are set to enjoy $53 billion in royalty-free drilling over the next 25 years and $36.5 billion in taxpayer subsidies over the next decade.

The Big Oil Welfare Repeal act will remove the Section 199 tax deduction for the “Big Five” oil companies (ExxonMobil, Royal Dutch Shell, BP, Chevron and ConocoPhillips). Section 199 currently allows oil companies to deduct from their tax liability six percent of the income derived from domestic production, manufacturing, and extractive activities.

“Despite the fact that Big Oil receives billions in taxpayer-funded subsidies each year, the price for a barrel of oil has doubled since 2005,” said Rep. Carney. “As gas prices rise, Americans are tightening their belts, and Congress is cutting spending in the face of massive deficits. Incurring more debt to subsidize big oil companies that already have an incentive to produce oil is foolish and irresponsible.”

The “Big Five” reported a combined $34 billion in first-quarter earnings, a 42 percent increase from the same period a year ago.

Repealing the oil industry’s tax subsidies will not impact gas prices for American consumers. Oil is traded on a global market and each barrel of crude is sold for the same price, regardless of how much its production was subsidized. Producers receiving tax subsidies pass on that benefit to their shareholders, not to consumers.

Depending on the reservoir and the physical characteristics of the hydrocarbon, the cost of producing oil can range from as little as $2 per barrel in the Middle East to more than $15 per barrel in some fields in the United States, according to the Energy Information Administration. Bringing once-expensive deepwater Gulf of Mexico oil into production can now be done for less than $10 per barrel.

The profit incentive to explore and produce new supplies for this lucrative market dwarfs any marginal benefit that existing federal tax breaks for oil exploration or production could provide.

As President George W. Bush said in 2005, “With oil at more than $50 a barrel, by the way, energy companies do not need taxpayers'-funded incentives to explore for oil and gas."

Recently, Speaker of the House John Boehner and House Budget Committee Chairman Paul Ryan indicated that the repeal of Section 199 should be considered.

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